

# Los Angeles Times

**State Democrats determined to raise taxes: Legislative leaders, saying school cuts under the governor's proposed budget are unacceptable, are prepared to dig in for a long fight to get about \$5 billion in tax increases.**

By Evan Halper

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SACRAMENTO -- Democratic legislative leaders declared Tuesday that they are prepared to delay the state budget this year if that's what it takes to get tax increases, which they called the only reasonable solution to California's multibillion-dollar shortfall.

"This is going to be the fight of a lifetime," Senate leader Don Perata (D-Oakland) declared at a news conference. He spoke on the steps of a Sacramento high school that faces layoffs and bigger classes under Gov. Arnold Schwarzenegger's plan to close the deficit with spending cuts, borrowing and deferrals.

"We are not going to be going anywhere this summer," he said, referring to the annual process of trying to agree on a budget by the July 1 start of the new fiscal year. "I told everybody that wants to go to the Democratic [National] Convention . . . TiVo it. That is as close as you are going to get."

Perata drew his line in the sand while standing with Democrat Darrell Steinberg of Sacramento, who will succeed him as Senate chief later this year, other senators and school leaders. Perata said the governor's proposal to cut school spending by 10% is unacceptable, and Democrats will reject any budget that includes less for education next year than this year.

Asked how Democrats propose to make up the difference, Perata said: "Raise taxes. That clear enough? Raise taxes."

Republican lawmakers have repeatedly said they will not vote for any budget that includes new taxes.

Almost every GOP lawmaker has signed a "Taxpayer Protection Pledge," vowing to "oppose and vote against any and all efforts to increase taxes."

"Raising taxes can have extremely negative consequences for the economy," said Assembly Budget Committee Vice Chairman Roger Niello (R-Fair Oaks). "Right now, California has the 12th highest tax burden in the country. Why would we want to move into the top 10?"

Although Republicans are the minority in the Legislature, a state budget cannot be approved unless at least eight GOP lawmakers sign off on it. The Republicans have used those votes to block past tax increase proposals.

Last year, they delayed passage of a budget by 51 days over the issue of spending, until Democrats and the governor agreed to hundreds of millions of dollars in additional program cuts.

Caught in the middle is the governor, who is urging Democrats and Republicans to begin working toward a solution now. In January, Schwarzenegger proposed a budget that cut spending by 10% in all state programs and included no new taxes. But last week he said he would support raising \$2.5 billion by closing tax "loopholes" -- decreasing or eliminating various tax breaks available to individuals and businesses.

But he has declined to provide particulars. The one example he has cited is a provision in the law that allows owners of yachts, airplanes and luxury RVs to dodge the sales tax on their vessels if they keep them out of state for 90 days.

Eliminating that tax break would generate only \$26 million for a state budget that is projected to be at least \$16 billion out of balance.

GOP lawmakers say closing loopholes is essentially a tax hike. They say the only way to raise \$2.5 billion by eliminating tax breaks is to scale back credits and deductions that benefit millions of Californians, such as the mortgage interest deduction or the dependent care credit. Doing so, they say, would have the same effect as a broad-based tax increase.

The governor waved off that criticism at a Sacramento news conference Tuesday.

"We should not get caught up in what is something called and what is the definition of something, because that doesn't bring anyone any healthcare, that doesn't bring anyone any education," he said. "Let's just put everything on the table and not debate what the definition of something is, but just say everyone has to participate, everyone has to contribute."

Schwarzenegger warned that a late budget would have serious consequences -- such as damaging the state's credit rating, which could ultimately cost taxpayers hundreds of millions in increased borrowing costs.

"The most important thing is that we fix the problem as quickly as possible," he said. "Any change in the credit rating will have a tremendous effect."

Late budgets have other effects as well. State payments to medical clinics, schools, community colleges and others stop. Vendors stop getting paid. Services for the poor, the elderly and the disabled are affected, with some programs forced to suspend operations until a state spending plan is in place.

But Democrats say closing \$2.5 billion in tax loopholes would not go far enough.

They want to raise taxes by double that amount, possibly by hiking sales taxes, tobacco taxes or taxes on the wealthy. Perata said Democrats will spend the next few months devising a specific plan.

Given the state's dire finances, he said, "no one is going to tell me . . . the average Californian would not be willing to pay pennies on the dollar more for an education system . . . that is worth what we believe California is about."